THE G-20'S DEVELOPMENT AGENDA

HOMI KHARAS
SENIOR FELLOW AND DEPUTY DIRECTOR
GLOBAL ECONOMY AND DEVELOPMENT
BROOKINGS

Executive Summary

The Group of Twenty (G-20) is the latest international forum to take up the issue of development. The Seoul Development Consensus and the Multi-Year Action Plan endorsed by the G-20 in 2010 were process steps, laying out an ambitious nine-pillar agenda and a mechanism for monitoring progress and reporting back to leaders. It is now imperative that these steps be translated into concrete actions that are seen as making a difference. This will not be easy. The international landscape is littered with failed efforts to achieve development targets: The Millennium Development Goals increasingly look to be off-track for many countries; most of the Paris Declaration's targets for aid effectiveness will not be met; and the G-8's effort to increase the quantity of aid has fallen far short of promises. The G-20 must show that it can do better. Three actions are needed:

- Strengthen investments in smallholder agriculture.
- Act to unlock large infrastructure investments (especially cross-border).
- Elevate the G-20 Development Working Group to the ministerial level to provide global leadership to the aid and aid effectiveness agenda.

What Is the Issue?

At the international level, issues of development and poverty reduction have been addressed through a process of setting goals, targets, action plans, identifying and getting commitments for resources to fund coordinated strategies, and monitoring and reporting back of results. This process has had some success, but relative to the scale of the development challenge and the ambition of policymakers, it has fallen far short of expectations. The three most recent international efforts—the United Nations' Millennium Development Goals, the Paris Declaration targets of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) and the G-8's aid commitments—have had at best partial success.

The G-20 has the potential to be the "Goldilocks" of international groupings. Some bodies (arguably the UN) are simply too large to make effective decisions in areas where trade-offs are required. Others are too small to drive the global agenda and overcome global collective action problems. The G-8 may have fallen into that category with regard to economic issues. Still others, like the DAC, do not have the political heft to ensure that commitments made in the rush for outcomes at international gatherings are implemented in the sober days of domestic realpolitik that follow.

The G-20 is positioned to do better. As a leaders' summit of the largest economies in the world, the G-20 certainly has the political will and economic clout to drive the development agenda forward. It has representation of all the economies that matter for the exercise of a full range of global development cooperation policies—aid, trade, investment, financial flows and even migration. Unlike other more representative bodies, the G-20 is sized to be an action-oriented group that can make decisions and implement policies.

It is now time to turn this promise into reality by showing progress on the global development agenda. The G-20 should take global development seriously because it is a topic of considerable concern to the public in G-20 countries (as shown by various polls) and is also an area where consensus among G-20 members is possible despite the diversity of the group. Unlike financial regulation or the unwinding of global imbalances, taking the global development agenda forward does not require any G-20 member to trade off domestic sovereignty against a global good. This should make it easier for G-20 members to act.

Of course, a vibrant developing world would be useful for advancing the broader G-20 agenda of a "strong, sustainable and balanced" global economy. It could help unwind global imbalances in a healthy way, and investment and consumer spending in the developing world provide the most dynamic source of demand for the global economy. In fact, by taking on development, the G-20 has recognized that many global issues like tax havens, financial regulations, terrorist financing and counternarcotics are subject to a "weakest link" theory. If any country gets left behind, it could pose a systemic risk for the rest of the world.

It is this mutual dependence and corresponding mutual accountability that give rise to optimism over the G-20 as a body that can tackle the development agenda compared with other groupings. When the DAC countries failed to meet the Paris targets for aid effectiveness for 2010—and the latest evaluation suggests that donors did less well than recipients in fulfilling their commitments—there were no repercussions. Similarly, when the G-8 countries missed their Gleneagles commitments, there was little reaction except for complaints from selected international nongovernmental organizations. But if the G-20 cannot deliver on development, the complaints that the G-20 is simply an expensive talking shop will intensify.

What Needs to Happen—and Why?

Sensibly, the G-20 has selected two pillars, agriculture and infrastructure, on which to focus at the Cannes Summit later in 2011. In both areas, it has the potential to take specific actions that can directly lead to better development outcomes.

Agriculture

First, take the case of agriculture. Price increases in major crops, particularly maize, have been of major concern to governments and publics across the world, leading to a chorus of voices for some remedial action. The process followed was to ask nine international organizations to jointly "develop policy options for G-20 consideration on how to better mitigate and manage the risks associated with price volatility of food and other agricultural commodities, without distorting market behavior, ultimately to protect the most vulnerable." The G-20's agriculture ministers endorsed an action plan at their June meeting that includes steps to:

- Improve market functioning by establishing an early warning mechanism, the Agricultural Market Information System, to provide better data on crop supply, demand and food stocks.
- Improve smallholder productivity in developing countries.
- Eliminate export restrictions on food and extraordinary taxes for food purchased for international humanitarian purposes, as well as create targeted, regional emergency food stocks to ensure access for the least developed countries.

The value of the G-20 ministerial process is that it combines the technical views of international organizations with the political sensibilities of agriculture ministers. Hot button topics like the impact of biofuel subsidies were discussed in a technical paper but were not included in the action plan because of a lack of political consensus among members. But this should not be taken as a weakness of the G-20 process, as some have observed, but as a strength—a recognition of the internal trade-offs (in this case with energy policy and other domestic concerns) that each country must consider before agreeing to move forward on specific areas in an international setting. The ministerial process provided a political cross-check that has long been absent from global development meetings.

Overall, the G-20 agriculture process has resulted in concrete recommendations and in hard-nosed non-actions. For example, the political pressure to criticize speculators for causing food price spikes was intense, but the detailed analytical work failed to provide evidence for this proposition and agriculture ministers correctly concluded that derivative markets in agricultural products should be regulated in the same way and by the same authorities as other financial markets, namely, by finance ministries and organizations. This "dog that did not bark" may be one of the most valuable outcomes of the G-20 process—

well-functioning agricultural futures markets are surely indispensable to helping the world deal with the inexorable rise in food demand to feed a growing global population that will also be significantly richer than at present. The UN Food and Agriculture Organization estimates that global food demand could rise by 70 percent by 2050. Without the G-20's efforts, the risk of ad hoc and inefficient regulations on futures markets would have been considerable, and that risk has now receded. In fact, there may even be a case for broadening agricultural futures trading to developing country exchanges.

Markets by themselves, however, may not provide the answer to global and national food needs, and one area where the G-20 leaders can and should do more is on resources for smallholder productivity. Under the Global Agriculture and Food Security Program (GAFSP), which was endorsed by the G-20 at Pittsburgh, countries agreed to provide substantially more resources to smallholder agriculture. Not surprisingly, given current budget constraints, the G-20 leaders have shied away from quantitative promises of more aid, either in the aggregate or to specific sectors. But this does not mean that aid resources are unimportant. Currently, there are several developing countries with well-developed plans for agricultural and smallholder development that have been vetted and approved by regional organizations—for instance, the Comprehensive Africa Agriculture Development Program—and participating international organizations. But these lack funding due to shortfalls in GAFSP. It may be time for a rebranding and refocusing of GAFSP to link it more closely to the G-20's development agenda, and thereby bring in other G-20 countries to support it—such as Russia, China and Brazil. A concrete step for the G-20 would be to discuss such reforms and encourage member countries to lend additional moral and financial support (either bilaterally or through the rebranded platform) to country agricultural development plans so that the critical leg of smallholder productivity improvements does not get short shrift.

Infrastructure

The former president of Nigeria, Olusegun Obasanjo, captures the hopes as well as the frustrations of Africa's leadership with the slow pace of infrastructural development, writing that "the pressure is now on the French G-20 presidency, which has to translate the plan into purposeful action by November 2011 and avoid the pitfalls of past efforts—including short-term thinking, destabilizing capital surges and carbon-heavy construction. Success will be measured by the amount of capital generated and the number of projects realized, as well as by the extent to which G-20 activities complement and synergize existing efforts without supplanting or fragmenting them" (Obasanjo 2011).

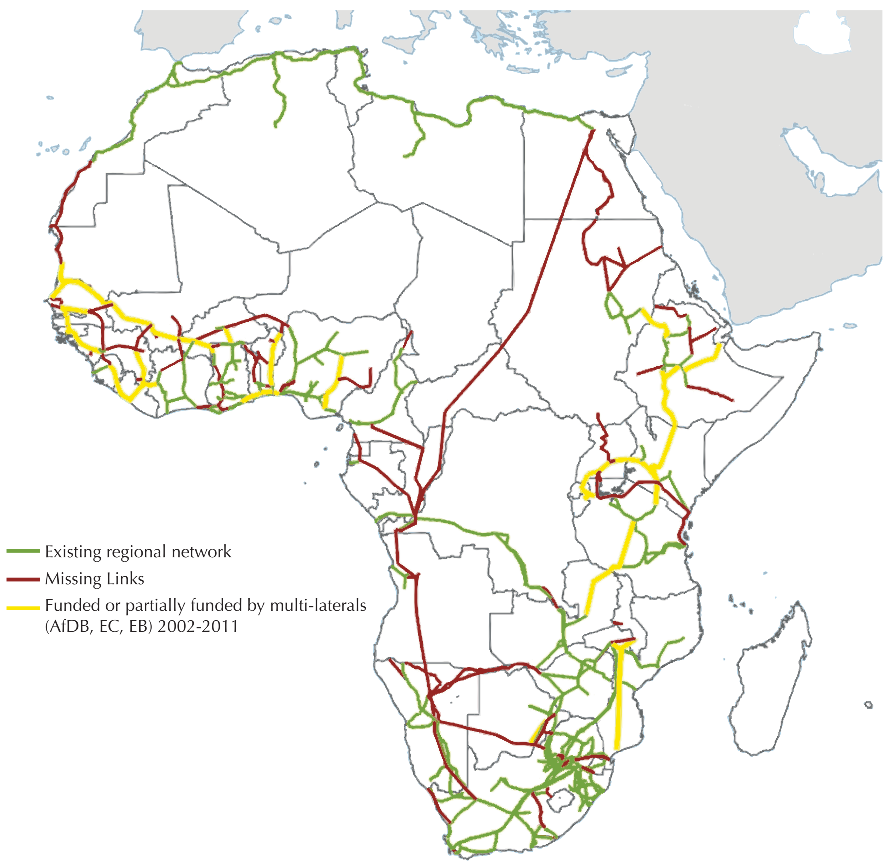
In fact, infrastructure has been diagnosed as a critical component for African growth. A flagship study on Africa's infrastructure found that infrastructure had been responsible for more than half the continent's growth performance between 2001 and 2005, and had raised per capita incomes by 1 percent between 1990 and 2005 (Foster and Briceño-Garmendia 2010). Most of this was a result of impressive information and communications technology penetration.

Not surprisingly, the study found that poor infrastructure services were a major hurdle to doing business, with productivity losses comparable to those from corruption, crime and financial market constraints. Power was cited as one of the most problematic areas. In Sub-Saharan Africa, only 30 percent of the population has access to electricity, the road access rate is about 30 percent and only 18 percent of irrigation potential is being utilized, according to the Program for Infrastructure Development in Africa (PIDA).

Africa's infrastructure networks lag significantly behind those of other developing regions, and infrastructure services, when delivered, are more costly. The causes include missing regional links (see figure 1), a difficult economic geography (low population density, a large number of landlocked countries, a rapid rate of urbanization and a large number of small economies), low investment and institutional inefficiencies. The diseconomies of scale that emerge from these factors, coupled with a lack of competition resulting in high profit margins, makes services in Africa more than twice as expensive as other places.

Why infrastructure bottlenecks remain so large is a long and complicated story. It is not because of low returns. Most infrastructure projects in developing countries have supernormal rates of return—30 percent to 40 percent in telecommunications, 40 percent in electricity generation, and 80 percent in roads (Winters et al. 2010). The problems lie on the risk side of the ledger. The policy and institutional challenges in getting the right environment for infrastructure financing in developing countries are enormous.

Figure 1. Regional Electricity Links in Africa



Source: "Africa's Infrastructure: An Agenda for Transformative Action," presented at "Scaling up Africa's Infrastructure to Meet the MDGs," sponsored by World Bank, African Union and African Development Bank, September 2010, http://siteresources.worldbank.org/AFRICAEXT/Resources/Africa_Infrastructure_Maps.ppsm.

Regional infrastructure projects, in particular, are typically large in scale and complex in scope. They suffer from all the same risks as other large infrastructure projects, but they have the added complication of needing to have synchronized policy and regulatory issues across a number of countries. Regional projects suffer from (1) coordination failures; (2) front-end risks and costs; (3) regulatory and political risks, influenced by the legacy actions of previous governments (even in neighboring or similar countries); and (4) distortions and political influences in the allocation of grant financing (Palmer 2006). It is these problems that the G-20 must resolve.

Donors have previously tried to address such risks, but with limited impact. Most notable are the new institutional arrangements—such as the Infrastructure Consortium for Africa hosted by the African Development Bank that now includes all the G-20 members as well as major multilateral institutions, the Private Infrastructure Development Group (PIDG), the New Economic Partnership for Africa's Development (NEPAD), the Infrastructure Project Preparation Facility and the Pan-African Infrastructure Development Fund. These groups have produced diagnostics, including the African Infrastructure Action Plan 2010–2015 and the longer range Program for Infrastructure Development in Africa (PIDA), but action and funding are still modest compared to the challenge.

The difficulty is that each large infrastructure project must be tackled individually, and this takes time, effort and funds. It is also taxing for the institutional capacity of the various groups that have been established. For example, the PIDG appears to be a well-functioning agency and was positively reviewed in a recent multilateral aid assessment. It has disbursed $390 million to fully finance 46 projects with $10.5 billion in private sector investments. But it is not operating on the scale that is really required.

The stage is set for another big push. A much bolder vision, which targets transformational investments in regional integration, is needed. NEPAD has built capacity through its various initiatives and is appropriately becoming more assertive. It has developed a list of priority regional projects, and for each project a sponsoring government has agreed to act as the project champion at the highest political level. Thus, the essential African leadership on this issue has been growing.

For their part, the multilateral development banks have also organized themselves to play a larger role in regional infrastructure investments. The World Bank's highly concessional facility, the International Development Association (IDA), has set aside $3.6 billion of its recent aid pledges specifically for regional projects and has developed a list of the 10 priority bankable projects.

What is lacking is a pool of money to actually prepare large projects. Thus for the IDA, the typical project preparation funding available is limited to $3 million. That is nowhere near sufficient to prepare a project like the Inga 3 and Grand Inga hydroelectric projects in the Democratic Republic of the Congo, which could cost upward of $300 million to do the full array of technical, economic, social and environmental studies. For development agency managers, all the incentives act against doing large regional projects—they are politically and technically risky, expensive to prepare, subject to delays and require huge management oversight. In short, regional projects are a bureaucrat's nightmare.

A large political push from the G-20, coupled with selective financing in critical project preparation areas, could change this situation. The political push would ensure that development agencies fix their internal incentive issues that militate against a more enthusiastic championing of high-return regional projects. And a properly sized project preparation fund would allow these large infrastructure investments to be moved toward commercially bankable projects. The money need not be a new charge for donors; they could authorize the use of existing multilateral grant resources for such purposes. With financing for up-front studies mitigating cost and risk, private capital would be likely attracted to actually undertake the investments in the high-return projects that have been identified. The goal should be to mobilize $1 billion in project preparation resources, which could leverage $10 billion to $12 billion in new investment in at least 10 major regional projects. With an announcement of an approach to large, regional project preparation, the G-20 could restore its credibility as a body that gets things done.

Recommendations and Next Steps

The G-20 must combine concrete actions with further process steps to deliver on the development agenda. Concrete actions on agriculture and infrastructure have been identified by relevant working groups but must be endorsed by leaders and, where possible, strengthened further.

Make the Development Working Group into a Ministerial Process

Of the three G-20 work streams—finance, agriculture and development—the first two have regular ministerial meetings preceding the summits, whereas development meetings are attended by the G-20 sherpas without a minister-level structure to support their efforts. In the case of agriculture, contentious ideas have been tabled and debated at both the political and technical levels. Specific recommendations have been endorsed at the ministerial level, while still leaving open the possibility for leaders to do more, especially on signaling their commitment to funding smallholder productivity.

But for infrastructure, the discussions have only been held at a technical level without benefit of a formal ministerial or political discussion. Unlike in the case of agriculture, where nine multilateral agencies developed a joint report, the infrastructure discussions are coordinated by a high-level panel of eminent individuals and then discussed in a meeting of the Development Working Group representatives, mostly the G-20 sherpas or their designees.

The Development Working Group should also submit its recommendations to debate at the ministerial level in advance of the leaders' summit. One can consider three basic models. The first would be to merge the development agenda into the finance ministers' process (perhaps inviting other ministers, according to the topic). The benefit of this would be that the finance ministers' process is already well established and smoothly functioning, being the longest-standing and original process of the whole G-20. Much of the development discussion involves funding, so a finance perspective is required in any case. Finance ministries also have close ties and representation in the international financial institutions, and they can use these links to bring the G-20 discussions into the board rooms of the major development institutions. The drawback, however, is that the finance ministers' process is already crowded, and thus development concerns may be relegated to the end of the meeting (as has happened in the past) and treated in cursory fashion.

The second option is to establish a new process, perhaps involving development ministers (or even foreign affairs ministers). The benefit would be that the development discussion is able to benefit from a full political as well as technical debate, but the drawback would be that development ministers may not have the clout to deliver in those areas where other ministries are directly involved. As the Seoul Development Consensus is a multidisciplinary agenda, requiring a coherent policy across a number of ministries, it might be hard to have effective debates on the full scope of the development agenda. As one example of the crossover nature of the Seoul Consensus, the Korean government has assigned responsibility for some areas of the agenda to its Ministry of Finance and for other areas to its Ministry of Foreign Affairs and Trade.

A third option is a hybrid of the two. There is a precedent in the finance area whereby both finance ministers and central bank governors sit together. The presence of development ministers might ensure that development issues do not get short shrift. But this option could also result in bureaucratic overload.

Making the G-20 Development Working Group into a ministerial process could help resolve one other problem in the global governance of development: the lack of global leadership. Other groups have taken up aspects of development, such as the OECD-DAC, which deals with aid. But no group systematically looks at development as a whole, in the way proposed by the Seoul Development Consensus of combining the growth and the Millennium Development Goals issues together. If the G-20 Development Working Group can be seen as an action-oriented and monitoring body for a whole-of-government approach to development while other bodies set standards and principles, a clear division of labor can be established. This year, because the G-20 Leaders' Summit in Cannes will be closely followed by the Busan High-Level Forum on Aid Effectiveness, there is an opportunity to link these international processes in a more explicit way. The G-20 Development Working Group would be a good forum to annually discuss the implementation of member countries' commitments to development made at Busan and to coherently take stock of the impact of these measures on development.

References

Foster, Vivien and Cecilia Briceño-Garmendia, eds. 2010. "Africa's Infrastructure: A Time for Transformation." World Bank and Agence Française de Développement. http://www.infrastructureafrica.org/system/files/AIATT_Consolidated_smaller.pdf.

Obasanjo, Olusegun. 2011. "The G-20 Needs to Address Africa's Infrastructure Deficit." *The Hindu*, February 23. http://www.hindu.com/2011/02/24/stories/2011022461561300.htm.

Palmer, Keith. 2006. "Supporting Infrastructure Investment in Developing Countries." German Marshall Fund, Washington. http://www.gmfus.org/galleries/pdf/Keith_Palmer_Paper.pdf.

Winters, L. Alan, et al. 2010. "Economic Growth in Low-Income Countries: How the G20 Can Help to Raise and Sustain It." University of Sussex, Brighton.